ATTN: Mike Hill
City of Lynchburg

MOODY'S ASSIGNS Aa3 RATING TO THE CITY OF LYNCHBURG'S (VA) $28.04 MILLION G.O. PUBLIC IMPROVEMENT BONDS, SERIES 2004 AND MIG1 RATING TO CITY'S $7.5 MILLION G.O. PUBLIC IMPROVEMENT BOND ANTICIPATION NOTES, SERIES 2004

Aa3 AFFIRMATION AFFECTS $156.93 MILLION OF OUTSTANDING PARITY DEBT

Lynchburg (City of) VA
Municipality
Virginia

Moody's Rating

Issue		Rating
General Obligation Public Improvement Bonds, Series 2004		Aa3/MIG 1
Sale Amount	$28,040,000	
Expected Sale Date	06/08/04	
Rating Description	General Obligation	
General Obligation Public Improvement Bond Anticipation Notes, Series 2004		MIG 1
Sale Amount	$8	
Expected Sale Date	06/08/04	
Rating Description	General Obligation	

NEW YORK, May 28, 2004 -- Moody Investors Service has assigned a Aa3 rating to the City of Lynchburg, Virginia's $28.04 million General Obligation Public Improvement Bonds, Series 2004 and a MIG 1 rating to the city's $7.5 million General Obligation Public Improvement Bond Anticipation Notes, Series 2004. In addition, Moody's has affirmed the Aa3 rating on the city's $156.93 million of previously issued parity debt. Both series are secured by the city's general obligation unlimited property tax pledge. Long term debt will be issued prior to the notes' maturity on June 1, 2006. This highest-grade short-term rating is based on the city's consistent record of market access as well as its strong long-term credit profile. The Aa3 long-term rating reflects the city's modestly growing economic base; satisfactory financial performance in the face of state cuts and expenditure pressures; and above average debt levels. Proceeds of the bonds will finance a variety of planned city projects related to schools, transportation, buildings, and water and sewer utilities.

DEMONSTRATED MARKET ACCESS

As a relatively frequent issuer of bonds and notes, the city continues to demonstrate access to the capital markets, receiving six bids for its bond sale on February 19, 2003 and three bids for its note sale on July 10, 2001.

GROWING ECONOMIC BASE SUPPORTED BY NEW CAPITAL INVESTMENT

Moody's expects that the city's diverse economic base will continue to grow given ongoing private investment encouraged through aggressive economic development efforts. A regional commercial center in western Virginia, Lynchburg has experienced healthy 4.2% average annual growth in assessed valuation over the last five years and its tax base now exceeds a sizeable $3.6 billion. This reflects both the introduction of new industry and expansion of existing industries, including a Frito Lay (subsidiary of PepsiCo, Inc. - rated Aa3) food processing plant, the BWX Technologies (Nuclear Fuel), and the healthcare facilities of Centra Health (rated A1). Recent expansion of existing business reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land and infrastructure and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants to the area. This effort included renovation of historical commercial space into artist lofts and living space as well as establishment of a children's museum in another historical warehouse. In addition to a number of other manufacturing firms, the city also contains a major medical center, several colleges, and a large regional shopping mall, as well as several big box retailers, all of which serve the surrounding areas. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of over $55,222.

HISTORY OF SOLID FINANCIAL PERFORMANCE CHARACTERIZED BY STABLE RESERVE LEVELS AND DIVERSE REVENUE STREAMS

While Moody's expects the city's solid financial performance to continue, given consistently ample reserve levels and diverse revenue streams, we recognize that the city faces a host of expenditure pressures in the coming years. The city has maintained healthy reserves despite a draw down of approximately $5 million in fiscal 2001 for non-recurring capital expenditures. While the city saw an addition to fund balance of approximately $1.35 million in fiscal 2002, fiscal 2003 saw a modest decline of $724,000 due to the combined impact of state funding cuts and an increase in compensation expenditures. However, the fiscal 2003 budget included approximately $3.8 million in non-recurring capital expenditures that provided some financial buffer. Lynchburg ended fiscal 2003 with a General Fund balance of $21.86 million, which represents 18.3% of General Fund revenues, and $17.1 million, or almost 14.3%, undesignated. The city's policy is to maintain undesignated fund balance at a level of at least 10%, a figure it has exceeded for five years in a row. City officials expect to end fiscal 2004 with a $3.0 million draw on reserves to finance planned one-time capital expenditures. The city is currently finalizing its 2005 budget, which currently contemplates further utilization of reserves, which may leave reserves below the city's 10% policy. In addition, the budget reflects substantial increase in Virginia Retirement System contributions as well as $1.6 million in recurring expenditures. Given the city's efforts in recent years to reduce expenditures, Moody's believes that the city faces the difficult challenge of addressing expenditure pressures while at the same time preserving financial flexibility. Future rating action will hinge on the city's ability to maintain financial flexibility in the face of budget pressures.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the city's debt burden will remain moderate, despite significant additional borrowing plans, given rapid retirement of principal, ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. Including the current issue, the city will have $191.36 million of General Fund supported debt, leaving a substantial debt burden of 4.1%, which is above average for comparably rated credits. Nonetheless, with more than three-quarters of principal scheduled to be repaid within 10 years, Moody's believes the city's growing tax base will adequately accommodate future borrowing needs. The city has a five-year capital plan in the amount of $187.04 million, of which approximately $129.75 million will be financed through the issuance of long-term debt over the next five years. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, currently faces a number of other challenges, including growing expenditures and high rates, which are in danger of becoming uncompetitive. To address this issue, the city restructured a portion of the outstanding sewer debt through a zero-interest state revolving loan in order to extend maturities and improve coverage margins. This action has freed up an additional $20 million in debt capacity to devote to CSO projects. Moody's expects operations will be sufficient to maintain the city's general obligation credit strength, given the system's history of stable financial operations and strong management.

KEY STATISTICS

Population (2003): 64,616

2003 Full Valuation: $3.6 billion

Full Value Per Capita: $55,780

Unemployment Rate (3/04): 5.6%

Debt burden: 4.1 %

10-Year Payout: 67.6%

General Fund Balance (2003): $21.86 million (18.3% of General Fund revenues)

Per capita income as % of state (1999): 76.2%

Median family income as % of state (1999): 75.4%

Post sale parity debt outstanding: $191.36 million

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